

## **Background information on IASB's meeting with State Auditor**

Please see following information regarding a discussion with the State Auditor in October 2009.

Stefanie Lovin and Ted Lodden from Brooks Lodden met with the state auditors' office in January 2010.

Paul Juffer, JD Geneser, and Kathy Zehr met with the state auditors' office on February 25, 2010. Sue Battani and Andy Nielsen were the state auditors in attendance. The meeting was requested by Paul with approval by Maxine Kilcrease.

### **IASB – State Auditor Memo**

Created by Stefanie Lovin, Brooks Lodden, provided to Brick Gentry law firm

#### **October 12, 2009**

Brooks Lodden, PC (BLPC) staff (Stefanie Lovin and Tiffany Ruch) met with Maxine Kilcrease to discuss fraud inquiries and various audit discussion questions.

Inquired of Maxine regarding her knowledge of any actual fraud or suspicions of fraud affecting the entity. She indicated she would hold comment until the pending external audit is completed.

Inquired of Maxine regarding her awareness of any allegations of fraud or suspected fraud affecting the entity from employees, former employees, board members, and/or volunteers. Maxine indicated not from any of those. BLPC inquired, then from someone outside the organization? Maxine said yes and that she had deferred her comments until the completion of the audit and the external audit. BLPC responded with, "we are external auditors." Maxine said, "Yes, but there have been additional external auditors hired." BLPC inquired as to the scope of the engagement and who the other auditors were. Maxine commented, they were still formulating the scope with the other auditors. BLPC inquired again who the auditors were since they were formulating the scope and if it would be noted in the board minutes. Maxine indicated that the Board of Directors had directed herself and Kevin to choose the auditors and the scope to the engagement, but had not worked out the details.

#### **October 27, 2009**

BLPC staff (Stefanie Lovin and Tiffany Ruch) met with Kevin Schick to discuss fraud inquiries and various audit discussion questions.

Inquired of Kevin regarding his knowledge of any actual fraud or suspicions of fraud affecting the entity. Kevin stated that he had concerns and had asked for a state audit. BLPC inquired as to how his concerns arose. He stated that he had concerns from the field and asked for a state audit. BLPC inquired as to the reason for a state audit, since IASB is not a governmental entity. Kevin responded that IASB receives state and federal funds and that a reaudit of multiple years had been requested. He indicated that the state auditor would expand if deemed necessary. BLPC inquired as to which entities would be involved in the reaudit. Kevin indicated that the State would determine which entities.

#### **October 28, 2009**

Financial Conditions FAQ of the IASB website (which is no longer there) the following was posted:

## State Auditor to Conduct Reaudit of IASB

(Memo sent to members on Oct. 28, 2009)

In an effort to be transparent and keep our members informed, the Iowa Association of School Boards would like to apprise members of the following developments regarding the association's finances.

IASB has engaged the services of the Office of Auditor of State (State Auditor's Office) to conduct a reaudit of the association to review certain issues related to the current financial state of the association. The State Auditor's Office will begin a reaudit of IASB's finances after Brooks Lodden has completed the 2009 audit, which we anticipate will be about mid-November.

The source of authority for the reaudit is Chapter 11.6(4)(a)(2) of the Code of Iowa. The reaudit will cover the most recent audit period and, if necessary, prior years. The length of time to complete the reaudit will be dependent upon the results of their findings, if any. The results of the reaudit will be made public following the exit conference between the auditor's office and IASB staff and the release of the reaudit report. Until then, the State Auditor's Office and IASB are precluded by Chapter 11.17 of the Code of Iowa from publicly releasing any information regarding the results of the reaudit.

We are posting financial information on our web site as it is available. The newest addition is a video message from President Jack Hill. Please visit this link: <http://www.iasb.org/AboutIASB.aspx?id=8292>.

Thank you for your continued support.

**January 22, 2010**

**Attendance:** Stefanie Lovin (BLPC), Ted Lodden (BLPC), James Pistillo (BLPC), Russ Wiesley – President, Bill Morraine – Treasurer, Mary Delagardelle - IASB, Legrand Smith - IASB, Kevin Schick –IASB , Randy Lagerblade - IASB, Sue Battani – Director, State Auditor's office, Andy Nielsen – Deputy Auditor of State, State Auditor's office

**Absent:** Maxine Kilcrease – Executive Director called out of town for ill mother

Kevin began the meeting.

Kevin began with concerns regarding the security of PaySchools. That a backdoor has been found where someone can bypass the front door security. IASB has tried to remove, but there are tentacles that cause the system to crash. Kevin commented that this backdoor was installed after the transfer from Stan Rogers. He said it allows someone to enter and not accumulate the information. Kevin commented that IASB is doing a transaction with eBay/Paypal, and that this backdoor allows the individual to make any changes to transactions. Kevin commented that PaySchools does transactions utilizing Visa and eChecks (BLPC note other credit cards are accepted as well). Kevin was asked if IASB has been notified by any schools that they are not receiving their funds, he said they have not been advised of missing funds. Kevin was asked by Sue Battani when it was installed (since IASB knows it is after Stan Rogers. Legrand commented that the transfer happened 10/2007 and it appears to have been installed at the beginning of 2008. Stefanie Lovin inquired, when the work was being performed by Visionary? Legrand commented that they were unsure. Legrand stated that Shawn Althaus, current PaySchools programmer says it is standard to put in a backdoor during the programming phase (note: PaySchools was no longer in the programming phase). Sue Battani inquired of access to the PaySchools program. Kevin indicated that it was specific individuals: Jon Muller and Jen Albers had access, but were not programmers. Programming access capability: Shawn Althaus, former employee David Michaels, and external Visionary

employee, Tony. Kevin was unsure of his last name. Andy Neilsen inquired about reconciliation regarding PaySchools. Randy Lagerblade indicated there are daily reconciliations through the transactions and bank reconciliations, but that IASB was behind on the bank reconciliations. Andy Neilsen inquired how the backdoor was found. Kevin responded through the due diligence process. An eBay reviewer found the backdoor when they were looking for a round off penny code. Have not found diversion. Andy inquired regarding the database file. Kevin commented there is no retention of credit card information or bank account numbers. Andy inquired if the backdoor allows snooping. Legrand commented that in the fall of 2008 a hacking event occurred in which someone was searching for credit card information. It looked like it was coming from N. Carolina, Germany, Sweden, then the Netherlands. IASB contacted the FBI Cyber Division, who wanted a discrete report. Kevin also commented on privacy of student records, Mary indicated it was known as FERPA.

The conversation then switched gears from PaySchools to audit in general. Ted indicated that many requests for information have been made. IASB commented that they went through the list yesterday.

Mary Delagardelle provided Ted a letter from Maxine in her absence.

Kevin then went into what needs to be done to get this audit done and the State in to do their audit. Sue Battani responded that she would like to explain the 'reaudit' process. (note: Sue has copies of the prior audit reports). She began with there has not been an official decision to reaudit. The key to determination is the review of the audit reports and workpaper review. Andy then commented that they do this to see if there is anything to look at. They make every effort to build upon what is already there and see if there are items that warrant review. Sue commented that Dave Vaudt will make the final determination and this does not reflect upon the audit firm or their work. Sue commented that there may be items that could be addressed that are not part of a risk-based audit. She said they are prepared and tentatively scheduled. She also commented that they may or may not look at every program, but will focus on IASB as a whole. They will visit with IASB regarding the general request. Andy commented that he did not imagine they would be looking at the others. Legrand inquired if they would look at LGS and Andy commented they could since it falls under the reporting entity. Sue said that anything is fair game: prior, current, and subsequent. Kevin said good, there are large loans made by IASB to LGS, that are questionable. Sue commented that under the authority to reaudit, they could go to the Attorney General and use subpoena power if necessary.

Sue then inquired as to why IASB was selling PaySchools. Kevin commented that it has never made money and has been a cash drain on IASB. All activity is aggregated into one account and VISA (credit card) regulations want more accounts, it is now operating in 40 states which have more regulations, and they feel eBay could better handle the software.

Sue inquired if they were getting rid of any other "I" programs, Kevin commented ISCAP has changed from warrants to LOC and the other "I" programs will remain the same. ISEBA will be changing administrator. Legrand commented that IJUMP is in the winding up phase, original tariff became permanent. (note: IJUMP was dissolved 6/11/2009, Secretary of State website)

**January 29, 2010**

Upon learning of Kevin Schick's departure from IASB, BLPC sent the following email to Legrand Smith and Mary Delagardelle.

Hi Legrand and Mary,

Due to the recent changes at IASB, Ted and I thought it might be beneficial for everyone that was at the meeting on January 22<sup>nd</sup> (ie. Brooks Loden, State Auditor's office, Board members, and IASB staff) to reconvene and discuss the current status and plans regarding the organization(s) and the audits.

Please let me know your thoughts on this.

Thank you,

Stefanie

BLPC received a phone call from Legrand Smith shortly after the email. He indicated that Maxine was out of town, but upon her return a meeting could be setup. No meeting was setup.